

GAO

Report to the Special Oversight Panel
on Morale, Welfare, and Recreation,
Committee on Armed Services, House
of Representatives

April 2001

DEFENSE
INFRASTRUCTURE

Commissary
Reorganization Should
Produce Savings but
Opportunities May
Exist for More



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United States General Accounting Office
Washington, DC 20548

April 26, 2001

The Honorable Roscoe G. Bartlett
Chairman
The Honorable Robert A. Underwood
Ranking Minority Member
Special Oversight Panel on Morale, Welfare, and Recreation
Committee on Armed Services
House of Representatives

In July 2000, the Defense Commissary Agency proposed changes to its regional management structure that it expects will generate savings, improve efficiencies, and provide more effective management of commissary operations. The plan calls for eliminating the two area offices within the Eastern Region and consolidating most of the Eastern Region's operations at the region's headquarters at Virginia Beach, Virginia. The plan also called for transferring the management of 25 of the Eastern Region's commissaries to the Agency's Midwest Region, which is headquartered in San Antonio, Texas. However, with the issuance of a revised plan in February 2001, this portion of the proposal was deferred, pending further study.

In response to a request from the former Chairman and former Ranking Minority Member, we reviewed the organizational and financial effectiveness of the Defense Commissary Agency's proposed restructuring actions. Specifically, we determined whether (1) the estimates of costs and savings from the planned consolidation of the Eastern Region's operations reflect all potential costs and savings and (2) the consolidation is the best way to achieve regional efficiencies. We are also including some perspective on the issue of regional span of control in providing oversight to commissaries located within a region. The Agency intends to examine this issue in a follow-on study of the current reorganization plan.

Results in Brief

Although the Defense Commissary Agency's proposed restructuring actions should generate annual savings after initial expenses are recouped, the Agency did not include all potential costs and savings in the estimates we reviewed in the July 2000 plan. In calculating the estimates associated with that proposal, Agency officials included only those expected costs and savings associated with personnel-related actions, such as personnel separation costs. While personnel-related actions are the primary cost and savings elements in the reorganization, the Agency did not include other

potential costs and savings such as operational costs. After we discussed this issue with Agency officials, they revised their cost and savings estimates. But the estimates are not yet fully refined and could still change, pending the plan's final approval. As of February 2001, the Agency's estimated one-time costs were about \$1.5 million, with annual net savings of about \$3.8 million thereafter.

Whether the proposed consolidation of the Eastern Region's operations at Virginia Beach is the best way to achieve efficiencies is unclear. Unlike previous reorganization efforts, the Defense Commissary Agency's current effort did not compare the financial and operational implications of alternative approaches to improving its regional operations. Although the Agency's views were mixed on whether the planned consolidation in the Eastern Region is the best approach to achieving efficiencies, most of the Agency's officials we spoke with agreed that eliminating the two Eastern regional area offices would most likely improve operations. While the proposed consolidation should produce efficiencies, it may cause some temporary loss of operational expertise because of the loss of some personnel in the closing area offices. At the time of our review, the Agency was developing plans to transition to the consolidated organization, but those plans will not be finalized until after the reorganization proposal is approved.

While the Agency's July 2000 plan included shifting management responsibility for 25 commissaries from the Eastern Region to the Midwest Region, the Agency did not have documented analysis supporting the basis for this proposal. After we expressed concern about this issue, the Agency withdrew this concept and intends to perform further study to determine the optimum number of stores to be managed within each region. To provide some perspective on the issue, we sought views from within the Agency and the commercial sector regarding regional span of control for effective and efficient oversight operations. In general, we found no conclusive information on what constitutes a reasonable span of control for a region in oversight operations. Agency officials had mixed views on the number of stores that a region could reasonably manage. An Agency-directed study of seven commercial-sector firms in 1994 also showed mixed results, as these firms had varying regional spans of control over their retail stores. Our discussions with three commercial-sector retail firms produced similar results. While this issue may be difficult for the Agency to resolve, the commercial firms we contacted expressed a willingness to assist the Agency in achieving efficiencies in its regional structure.

We are making several recommendations to the Under Secretary of Defense (Personnel and Readiness) to help ensure that changes made in the organization and management of the Defense Commissary Agency are in the best long-term interest of the commissary system. The Department of Defense provided written comments on a draft of this report and agreed with our findings and recommendations.

Background

The Defense Commissary Agency (DeCA), headquartered at Fort Lee, Virginia, is the Department of Defense's designated agency for managing commissaries on a worldwide basis. As of September 30, 2000, the Agency had 290 stores and over 19,000 employees under its purview and had annual sales in fiscal year 2000 of about \$5 billion. In providing services for its military customers, DeCA strives to provide the lowest cost possible, charging patrons only for the wholesale cost of goods plus a 5-percent surcharge. The annual cost of operating the Agency's infrastructure was about \$1 billion in fiscal year 2000, which was funded primarily through direct appropriations from the Congress.

To perform its mission, DeCA, in addition to its headquarters and field operating activities, operates four regional offices that oversee management of its commissaries. (See table 1.) Commissaries are, for the most part, geographically dispersed throughout the world, and are located in 45 states and many foreign countries. To assist regional management in overseeing store operations, the regions employ zone managers, whose role is to work with store managers to resolve problems and keep operations running smoothly. Zone managers typically oversee from 7 to 10 stores, depending on, among other things, the geographical dispersion of the stores within the region.

Table 1: Defense Commissary Agency's Regional Offices (Fiscal Year 2000)

Dollars in billions			
Region	Number of stores ^a	Sales volume	Authorized personnel ^b
Eastern	106	\$2.3	179
Midwest	34	0.8	73
Western/Pacific (Far East)	86	1.5	153
European	64	0.4	132
Total	290	\$5.0	537

^aAs of February 2001, the number of stores decreased to 287; an additional six closures and one new store are expected by October 2001.

^bIncludes regional headquarters and area office personnel only.

Source: Defense Commissary Agency.

As part of a larger effort to reduce costs and improve operations on an Agency-wide basis, DeCA prepared a plan to reorganize its regional management structure. In July 2000, the Agency submitted its plan for approval to the Commissary Operating Board, which is comprised of representatives from each of the military services. The Board, which has day-to-day operational oversight responsibilities for DeCA, reports to the Under Secretary of Defense (Personnel and Readiness), who exercises overall supervision of DeCA. After we expressed concerns about the July 2000 plan, DeCA redrafted its proposal and in February 2001 sent the revised plan to the Commissary Operating Board for its approval. While the initial plan affected both the Eastern and Midwest regions, the revised plan affects only the Eastern Region and does not affect store-level operations. The key component of the initial plan is unchanged in the revised plan. It involves the closure of the two area offices within the Eastern Region—the Northern Area Office at Fort Meade, Maryland, and the Southern Area Office at Maxwell Air Force Base, Montgomery, Alabama—and the relocation of most operational functions to the existing Eastern Region headquarters in Virginia Beach. Through consolidation and a succeeding regional headquarters reorganization, DeCA expects to reduce the number of Eastern Region personnel authorizations from 179 to 122—a reduction of 57 spaces.

The July 2000 plan also called for transferring the management of 25 stores located in the Eastern Region to the Midwest Region. Had this transfer been retained in the revised plan, the number of stores in the Eastern Region would have been reduced to 81, while the number of stores in the Midwest Region would have increased to 59. However, the revised plan defers this aspect of the reorganization for further study.

Reorganization Plan's Estimates Do Not Include All Potential Costs and Savings

DeCA's initial estimates of costs and savings from its planned reorganization did not include all the potential costs and savings associated with the reorganization. That plan focused on personnel-related actions affecting costs and savings and excluded, for example, other potential operational costs, such as increased facility leasing expenses or savings resulting from implementing the plan. While personnel-related actions are most likely the largest determinant of costs and savings, the total estimated costs and savings were not identified. On the basis of our discussions with DeCA officials and a limited analysis of the revised plan, DeCA has made an effort to more precisely identify one-time costs and subsequent annual savings resulting from the reorganization. While the estimates are not fully refined, the annual savings resulting from personnel reductions in the reorganization should still be significant, once the implementation costs are offset.

In contrast with the initial July 2000 plan that had estimated one-time costs of about \$1.2 million and annual savings of about \$4.6 million, the revised reorganization plan contains estimates of one-time costs of about \$1.5 million and annual savings of about \$3.8 million. With the revised plan, the payback period for recouping the one-time costs is estimated at about 5 months. As identified previously in the July 2000 plan, personnel-related costs, which include separation costs and permanent change-of-station costs for those who relocate from the closing offices to Virginia Beach, constitute a large portion—nearly 50 percent—of the expected one-time costs presented in the February 2001 plan. Likewise, the elimination of personnel spaces by consolidating operations at Virginia Beach is the primary component in the revised plan's estimate of annual savings. However, in revising the July 2000 plan, DeCA officials included some expected operational costs, such as the costs for relocating equipment and increased facility leasing costs at Virginia Beach, that have had the effect of providing greater precision to the cost estimates.

Although the revised February 2001 plan includes more complete estimates, these estimates should still be viewed as a rough approximation of the actual figures for the following reasons:

- Personnel-related cost estimates are based on historical averages of the percentages of DeCA personnel who have either voluntarily separated or relocated. The actual numbers will be unknown until these personnel actions occur as the plan is implemented.
- DeCA may be optimistic in assuming that it will not incur any involuntary personnel separation costs because it believes that everyone who desires

Proposed Reorganization May Not Be the Best Way to Achieve Efficiencies, but It Should Improve Operations

employment will retain a job, whether within DeCA or another government agency.

- Some changes in operational costs, such as business travel costs, are not included in the analysis. While the consolidated operation may result in increased travel costs to oversee store operations, DeCA officials told us that any potential increase would not materially affect the expected annual savings.
- A portion of the expected annual savings is predicated on a reduction of 35 additional positions in the Eastern Region Office after the consolidation. At the time of our review, that figure had not been finalized. Furthermore, the standard compensation factor used in calculating the reductions is most likely too high because these reductions are expected to include more lower-salaried employees. To the extent that these 35 positions are not reduced as planned, the expected annual savings could be overstated, perhaps by as much as \$280,000.

In developing its regional reorganization plans, DeCA management officials did not consider alternative structural approaches to achieve operational efficiencies and generate savings. However, on the basis of our discussions with various DeCA officials and a review of prior reorganization documentation, a number of alternatives could have been explored. Without a critical analysis of the merits of potential alternative approaches, the approach that would provide the most efficient operation is unclear. Nonetheless, the proposed approach appears to offer an opportunity to improve operational efficiency and save money.

While DeCA's proposed plan affects only the Eastern Region, several alternative approaches could have been considered. Some officials, for example, believed that consolidating the three continental U.S. (CONUS) regions into two—the Eastern and Western/Pacific regions—and retaining a European Region would be preferable to the existing plan. In this case, the Midwest Region would be eliminated, and the management of its 34 stores would be divided among the remaining two CONUS regions. While those supporting this action believed that eliminating a regional headquarters could reduce overhead costs, the resulting expected savings would have to be weighed against the increased oversight workload of the assuming regions and their ability to maintain quality service to their customers. When asked whether this was a viable option, the DeCA Director told us that the Agency was not prepared to undertake such a move, especially at the same time that it was initiating agency-wide unit cost reduction initiatives and instilling a business-like culture in its operations.

Among the other alternatives that could have merit were varying configurations of the three CONUS regions. One such option suggested by some officials was retaining the Western/Pacific Region and creating Northern and Southern regions with headquarters at Fort Meade and Maxwell Air Force Base, respectively. In this scenario, the Midwest Region would be eliminated and the management of its stores would be divided between the Northern and Southern regions, which would also manage the existing Eastern Region's stores. Furthermore, the existing Eastern Region headquarters at Virginia Beach would be eliminated. While this alternative would tend to preserve operational expertise at the existing Fort Meade and Maxwell locations, it would also mean increasing their staffs to assume functions now performed at Virginia Beach. In any case, whether this or other alternatives would provide a more efficient operation than that in the proposed plan is subject to question, pending a detailed examination of the costs and benefits of each approach.

Whether or not other alternatives would be more beneficial to the Agency would require in-depth analysis by DeCA. Regardless, the proposed plan, if properly implemented, should improve regional operations and create efficiencies. A comparative DeCA analysis of the Eastern and Western/Pacific regions shows that the Eastern Region currently has more staff to accomplish a mission and scope of work similar to that of the Western/Pacific Region. Furthermore, the analysis shows that the Western/Pacific Region, despite having fewer personnel, performed at a comparable level, as measured by customer satisfaction and Inspector General inspection results, to that of the Eastern Region. Most of the perceived overstaffing in the Eastern Region—about 22 positions—was attributable to duplicative management and administrative positions across the region's three offices, while the Western Region had consolidated operations. Furthermore, our discussions with the Eastern Region's former Director indicated that efficiencies were lost because of (1) poor communications between the region's headquarters and its area offices and (2) overlapping roles and responsibilities between the region's headquarters and the area offices. Most DeCA officials we spoke to agreed that the Eastern Region's existing organizational structure, which includes a headquarters and two area offices, was an anomaly in DeCA's organization and was not conducive to smooth operations and maximum efficiency.

While promoting improved efficiency, the reorganization plan, if implemented without proper planning to mitigate the potential loss of operational expertise from departing personnel in the closing offices, could have a detrimental effect on operational efficiency and customer

service. Under the Eastern Region's existing organization, much of the operational responsibility for the day-to-day oversight of the stores within the region rests with the two area offices that are to close under the reorganization. For example, personnel within these offices visit stores and assist store managers with contractor performance and operational issues on a regular basis, thereby helping them to provide quality customer service. Over time, many of these personnel have formed beneficial relationships with the store managers and employees. With the transfer of these responsibilities to the regional headquarters, it is important that this assistance continue in a quality manner in order to minimize the potential for degraded customer service. At the time of our review, the Agency was developing plans to transition to the consolidated organization, but those plans will not be finalized until after the reorganization proposal is approved.

Observations on Regional Span of Control Issues

We found no conclusive information to suggest what a reasonable span of control is for DeCA's regions in performing oversight of commissaries within the regions' boundaries. As previously noted, DeCA had no documented analysis to support shifting the management of stores between regions, and the Agency subsequently deferred this issue for further study. From our limited evaluation of this issue, we found that views within DeCA on adequate span of control were mixed and that subjectivity and managerial style played important roles in the determination of DeCA's views. A prior DeCA-contracted study of commercial-sector retail firms' spans of control was inconclusive as well. Furthermore, our recent discussions with three commercial retail firms produced similar inconclusive results. The firms did express an overall willingness, however, in assisting DeCA in its efforts to reduce costs and promote efficiencies within its organizational structure.

Span of control is an important concept in determining the optimum number of stores for a regional organization to manage most efficiently and cost-effectively. While having a large number of stores within a region may save money by proportionally reducing overhead expenses, it may result in degraded operations and customer service if the oversight responsibility is too demanding. On the other hand, a region with a smaller number of stores may provide greater oversight and better service at the expense of proportionally greater overhead costs. The difficulty is in determining what is a reasonable number of stores to manage, balancing costs with quality of service to the customer.

DeCA officials we spoke to had different views on how many commissaries a region could reasonably manage, given their oversight

responsibilities. In general, our discussions showed that, in many ways, determining a reasonable span of control is a subjective judgment that depends on such issues as managerial philosophy, style, and preference. Many Eastern Region officials believed, for example, that they have managed and could continue to manage their existing 106 stores without a problem. The Eastern Region's former Director, however, expressed concerns that his span of control was too large to reasonably manage. The Midwest Director and several of his staff generally favored a smaller number of stores per region, stating that providing continued quality customer service and routinely visiting geographically dispersed stores necessitated a smaller span of control. In this regard, the Midwest Director questioned whether a larger number, such as 106 stores in the Eastern Region, was manageable without suffering degradations in operations and service.

Commercial-sector retail firms' practices and views on the appropriate span of control for overseeing their store operations also appear to vary. A 1994 DeCA-sponsored study of seven commercial-sector firms by the HayGroup (private organizational consultants) was inconclusive in specifying a common or uniform number of stores that were managed within a firm's regions. Our recent discussion with three major commercial food retailers also showed different views on span of control and the number of stores they managed within each of their regions.

- One firm we visited operated about 180 stores in five contiguous states. A management official from the firm told us that, although two divisions (or "regions" in DeCA terminology) manage about 90 stores each, three divisions with about 50 stores each would be more reasonable but probably more costly. He further told us that having over 100 stores in a geographically dispersed region like DeCA's Eastern Region would probably be too much to properly manage.
- A second firm we visited operated 578 stores in 22 states. A management official from this firm believed that about 50 stores per region was a reasonable structure. In this particular case, the firm builds its structure around distribution centers and locates stores within 250 miles of a center.
- Finally, the third firm we visited was a much larger organization with over 2,300 stores in 31 states. According to management officials from that firm, their regions operate from 88 to 450 stores and their span of control in managing these stores was generally not a problem. While the stores in this firm were more geographically concentrated than DeCA's stores, these officials believed that having 100 stores in a DeCA region was probably manageable, given the strong use of its zone managers within a region.

While the results of our review of span of control issues were generally inconclusive, it should be recognized that comparisons of business practices between the commercial sector and DeCA are inherently difficult because of different circumstances surrounding their respective operations. DeCA believes that no comparable retail enterprises in either the government or the private sector exist. Agency officials told us that, whereas DeCA's organization spans the world and its stores are generally widely dispersed, most commercial firms have a greater concentration of stores within a given area. Our limited contact with the commercial sector supports this assertion. Furthermore, DeCA officials told us that many commercial firms own and operate their own distribution centers within their regions, while DeCA operates through direct deliveries from vendors and does not have distribution centers within its CONUS regions. These and other differences have an impact on span of control within a region's operations.

Although the operations of the commercial sector and DeCA may not be directly comparable, this does not imply that the Agency cannot take advantage of commercial sector best practices that would be applicable to organizing and managing its regional operations. In this regard, the firms we contacted generally expressed a willingness to assist DeCA in reducing costs and promoting organizational efficiency—business goals that are common to both the commercial sector and DeCA. A corporate official from one firm we contacted suggested that grocery executives could discuss their experiences in increasing efficiency with DeCA management. Another firm's official believed that since DeCA is seeking to move to a more cost-conscious environment, the Agency could probably benefit by reaching out to the commercial food sector.

Conclusions

While the Defense Commissary Agency has not fully refined its cost and savings estimates, it appears that, by eliminating the Eastern Region's area offices and consolidating those regional operations at its Virginia Beach location, the Agency will produce savings and improve operations. However, with the implementation of the plan comes a loss of operational expertise in the closing offices that could potentially disrupt operations and customer service. Whether the Agency's proposed regional reorganization is the best approach for achieving efficiencies is unclear because the Agency did not assess alternative structural approaches to improving regional operations and creating efficiencies. The plan is limited because it considers only the Eastern Region and not the totality of the regional structure, which is to be considered in the Agency's follow-on study of the current reorganization plan.

While the closure of the area offices is likely to improve efficiency, the planned study to determine the optimum number of stores for the Agency's regions provides an additional opportunity for achieving additional streamlining and improved regional operations and efficiencies. In this regard, experience from commercial-sector retailers may provide useful insights into determining how to shape the Agency's future regional structure.

Recommendations for Executive Action

If the proposed reorganization plan is approved for implementation, we recommend that the Under Secretary of Defense (Personnel and Readiness), in consultation with the Chairman, Commissary Operating Board, require that the Director, Defense Commissary Agency, include steps in the Agency's transition plans to minimize the potential disruption of regional operations caused by the loss of operational expertise from its closing offices.

As part of the Agency's upcoming study of what is the optimum number of stores in each of its regions, we recommend that the Under Secretary of Defense (Personnel and Readiness), in consultation with the Chairman, Commissary Operating Board, require that the Director, Defense Commissary Agency,

- solicit commercial food retail firms' views on structuring regional operations for improved operations and efficiency and
- assess whether other restructuring alternatives, such as the consolidation of the three continental U.S. regions to two regions—an Eastern and Western/Pacific Region—would generate additional savings without sacrificing quality service to its customers.

Agency Comments and Our Evaluation

In its written comments on a draft of this report, the Department of Defense agreed with our findings and recommendations. The Department's comments are presented in their entirety in the appendix. It also provided technical clarifications, and where appropriate, we incorporated them in the report.

Scope and Methodology

To determine whether the estimates of costs and savings from the planned consolidation of the Eastern Region's operations reflect all potential costs and savings, we analyzed the estimates as presented in DeCA's July 2000 proposal, along with the underlying assumptions and supporting detail. On a more limited basis, we also analyzed, but did not verify, the reliability of the revised estimates in DeCA's February 2001 proposal. We also discussed with DeCA officials their methodology for arriving at the estimates to ensure that the logic was sound.

To determine whether the proposed consolidation was the best way to achieve efficiencies, we examined planning documentation and interviewed key officials across the Agency. In reviewing the plan's documentation, we sought out alternatives that may have been considered in developing the proposal but found none. We subsequently interviewed various officials for potential alternatives, but made no attempt to independently perform comparative analyses of those that were identified. In interviewing officials, we learned of prior organizational studies and reviewed available documentation. We also sought views on the proposed approach from officials within the DeCA headquarters as well as those most directly affected by the reorganization. The latter include officials in the Eastern Region Office, Virginia Beach, Virginia; Northern Area Office, Fort Meade, Maryland; Southern Area Office, Maxwell Air Force Base, Montgomery, Alabama; and Midwest Region Office, San Antonio, Texas. We also contacted several former DeCA officials for their views on the reorganization plan and a historical perspective leading up to the formulation of the plan.

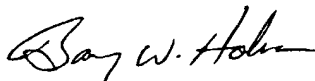
Because DeCA is now studying regional span of control, an issue in the Agency's July 2000 proposal, we sought to obtain both the Agency and commercial sector's views on what constitutes a reasonable span of control for a region to have in managing stores within its boundaries. In this regard, we interviewed various DeCA officials, including recent former DeCA managers, regarding span of control issues. We also reviewed a previous study of commercial-sector retail management practices conducted by the HayGroup, which was contracted by DeCA to study reorganization alternatives in 1994. We also interviewed management officials from three grocers that were in the top 25 nationwide in annual sales during 2000 to gain a sense of their organizational structure and span of control in managing their stores. To the extent possible, we compared the commercial data with that of DeCA's to ascertain whether any commercial best practices regarding span of control would be applicable to DeCA's store management. While we collected data for comparative purposes, we could not generalize to all retail operations because of our limited sample.

We conducted our review from July 2000 through March 2001 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Honorable Donald H. Rumsfeld, Secretary of Defense; the Honorable Charles L. Cragin, Acting Under Secretary of Defense (Personnel and Readiness); Lieutenant General Michael E. Zettler, Chairman, Commissary Operating Board; Major General

Robert J. Courter, Jr., Director, Defense Commissary Agency; the Honorable Mitchell E. Daniels, Jr., Director, Office of Management and Budget; and other interested parties. We will make copies available to others upon request.

Please contact me at (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report were William Crocker, James Reifsnyder, David Combs, and Arnett Sanders.

A handwritten signature in black ink, reading "Barry W. Holman". The signature is written in a cursive style with a large, stylized "B" and "H".

Barry W. Holman
Director, Defense Capabilities and Management

Appendix: Comments From the Department of Defense



PERSONNEL AND
READINESS

UNDER SECRETARY OF DEFENSE
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09 APR 2001

Mr. Barry W. Holman
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, D.C. 20548

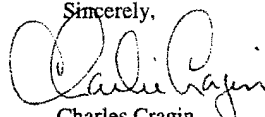
Dear Mr. Holman:

This is the Department of Defense (DoD) response to the GAO draft report, "DEFENSE INFRASTRUCTURE: Commissary Reorganization Should Produce Savings but Opportunities May Exist for More," dated March 6, 2001 (GAO Code 709535/OSD Case 3049).

The DoD concurs with the overall comments and recommendations in the report. Specific comments on the recommendations are enclosed.

Thank you for the opportunity to comment on this report.

Sincerely,


Charles Cragin
Acting

Enclosure:
As stated



GAO DRAFT REPORT - DATED MARCH 6, 2001
GAO CODE 709535/OSD CASE 3049

**"DEFENSE INFRASTRUCTURE: COMMISSARY REORGANIZATION SHOULD
PRODUCE SAVINGS BUT OPPORTUNITIES MAY EXIST FOR MORE"**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: If the proposed reorganization plan is approved for implementation, the GAO recommended that the Under Secretary of Defense (Personnel and Readiness), in consultation with the Chairman, Commissary Operating Board, require that the Director, Defense Commissary, includes steps in the Agency's transition plans to minimize the potential disruption of regional operations caused by the loss of operational expertise from its closing offices.

DOD RESPONSE: Concur. The proposed reorganization of the Eastern Region ensures mission continuity, takes care of its employees, and is consistent with the Agency's savings glide path. A portion of savings realized result from the elimination of redundancies and overlapping functions. The remainder of the savings is generated by the move to the business area concept of operations. In total, the new structure provides for a streamlined, labor-reduced operation with minimal or no adverse impact on the quality or timeliness of services. DeCA's transition plans for the first phase of the restructuring efforts at the Eastern Region call for a time-phased assumption of mission from the area offices at the region headquarters. Assumption of duties at the region headquarters will occur only when sufficient skills and expertise are in place, thus minimizing any disruptions of operations and assuring full presence of required expertise. DeCA's approach will stage functional area transfers consistent with mission responsibility while giving all employees equal access to job placement opportunities. DeCA will observe OPM rules as they pertain to management reassignments and will use reductions in force procedures if needed. All available strategies will be employed to mitigate adverse impact on the workforce.

RECOMMENDATION 2: As part of the Agency's upcoming study of what is the optimum number of stores in each of its regions, the GAO recommended that the Under Secretary of Defense (Personnel and Readiness), in consultation with the Chairman, Commissary Operating Board, require that the Director, Defense Commissary Agency, solicits commercial food retail firms' views on structuring regional operations for improved operations and efficiency.

DOD RESPONSE: Concur. DeCA will solicit views on structuring regional operations for improved operations and efficiency from commercial food retail firms. DeCA will contact the commercial firms identified by GAO to further

benchmark endeavors especially with regard to the portion of study dealing with the number of stores assigned to regions and zones.

RECOMMENDATION 3: As part of the agency's upcoming study of what is the optimum number of stores in each of its regions, the GAO recommended that the Under Secretary of Defense (Personnel and Readiness), in consultation with the Chairman, Commissary Operating Board, require that the Director, Defense Commissary Agency, assess whether other restructuring alternatives, such as the consolidation of the three continental U.S. regions to two regions—an Eastern and Western/Pacific region, would generate additional savings without sacrificing quality service to its customers.

DOD RESPONSE: Concur. As part of the restructuring process, DeCA will analyze various region alternatives as well as the potential impact on quality and service provided to commissary patrons.

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